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IHS Markit / BME Germany Manufacturing PMI®

Supply bottlenecks continue to hold back factory growth, but tentative signs of constraints easing

Key findings

Output growth ticks up as incidence of lengthening input lead times falls

Input costs and output prices rise sharply, but rates of inflation ease

Faster rise in employment as business expectations strengthen slightly

Data were collected 06-16 December 2021.

German manufacturing production continued to be held back by supply constraints in December, latest PMI® survey data showed. However, with firms recording the lowest incidence of input delivery delays since January 2021, the rate of output growth picked up slightly. This coincided with a partial correction in the rate of cost inflation from recent record highs as well as an improvement in expectations towards future production. Still, conditions on the supply side remained among the toughest seen in the survey's history, leading firms to rapidly build up buffer stocks of inputs during the month.

At 57.4 in December, the headline IHS Markit/BME Germany Manufacturing PMI® – a weighted aggregate of measures of new orders, output, employment, suppliers' delivery times and stock of purchases – was unchanged since November and remained at its lowest since January 2021.

After having slowed throughout much last year, the rate of manufacturing output growth picked up slightly for the second month in a row in December. That said, it was still subdued compared to the historical average, as a number of firms once again indicated that supply shortages had weighed on output levels.

Inflows of new orders at German manufacturers continued to outstrip production volumes, leading to another steep increase in backlogs of work in December. The rate of new order growth lost further momentum, however, easing to its lowest since the current upturn began in July 2020. Reduced production schedules at customers owing to input shortages was a factor, surveyed businesses indicated. The trend in new export orders mirrored that of total new work.

Almost half (49%) of firms recorded a lengthening of average lead times on inputs in December. This was down from a survey peak of 79% in May and the lowest since January. However, it was still

Germany Manufacturing PMI
sa, >50 = improvement since previous month



Source: IHS Markit.

Comment

Commenting on the latest survey results, Phil Smith, Associate Economics Director at IHS Markit, said:

"After a promising start to 2021, the German manufacturing sector's performance faded as the year went on as unprecedented supply chain constraints took their toll. However, although growth in December was only modest with supply shortages still an issue, the survey's output index has now ticked up in each of the last two months, to offer some hope that the final quarter of 2021 can be a turning point from which growth starts to pick up as we move through 2022.

"Buoyed by full order books, German manufacturers are confident about growth prospects in the coming year, though much still depends on an improvement in the supply situation.

"Latest data provided some signs of encouragement, as expectations improved, the incidence of lengthening lead times eased to an 11-month low, and firms were able to rapidly build up stocks of inputs. Nevertheless, supply chains remain under intense pressure by historical standards, and there's still a risk of fresh disruption as a result of flare-ups in the pandemic."

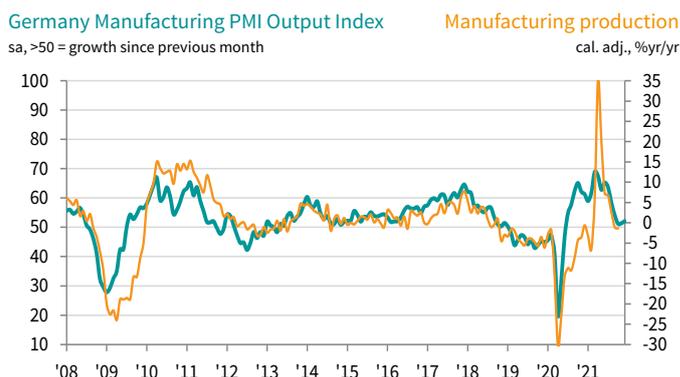
higher than at any time in the series history prior to the onset of the pandemic in 2020, with many firms continuing to report imbalances between supply and demand across a range of materials and components, as well as pressure on transport capacity.

German manufacturers continued in their efforts to mitigate against supply bottlenecks and long lead times by building up stocks of inputs. Driven by a sustained strong increase in purchasing activity, pre-production inventories rose at a record rate for the second month in a row in December. Stocks of finished goods also increased, albeit only modestly by comparison.

On the cost front, goods producers faced another steep rise in average input prices at the end of the fourth quarter. The rate of inflation did however ease slightly and for the fourth time in the past five months, taking it further from July's record high to the lowest since April.

It was a similar picture for output prices, the rate of inflation of which remained among the fastest in the series history as many firms looked to pass on higher costs, but eased – and quite notably – compared to November's record high.

German manufacturers recorded slightly greater optimism towards the year-ahead outlook for output in December. Expectations ticked up further from October's 14-month low to the highest since August, although they were still below the average for the year as a whole. Firms were hopeful of seeing both an easing of supply chain constraints and an improvement in demand over the course of 2022. In line with positive growth projections, goods producers increased employment. Furthermore, the rate of job creation accelerated for the first time in five months and was the quickest since September.



Sources: IHS Markit, Federal Statistical Office.

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Survey methodology

The IHS Markit / BME Germany Manufacturing PMI® is compiled by IHS Markit from responses to questionnaires sent to purchasing managers in a panel of around 400 manufacturers. The panel is stratified by detailed sector and company workforce size, based on contributions to GDP.

Survey responses are collected in the second half of each month and indicate the direction of change compared to the previous month. A diffusion index is calculated for each survey variable. The index is the sum of the percentage of 'higher' responses and half the percentage of 'unchanged' responses. The indices vary between 0 and 100, with a reading above 50 indicating an overall increase compared to the previous month, and below 50 an overall decrease. The indices are then seasonally adjusted.

The headline figure is the Purchasing Managers' Index® (PMI). The PMI is a weighted average of the following five indices: New Orders (30%), Output (25%), Employment (20%), Suppliers' Delivery Times (15%) and Stocks of Purchases (10%). For the PMI calculation the Suppliers' Delivery Times index is inverted so that it moves in a comparable direction to the other indices.

Underlying survey data are not revised after publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

For further information on the PMI survey methodology, please contact economics@ihsmarkit.com.

Survey dates and history

Data were collected 06-16 December 2021.

Survey data were first collected April 1996.

Flash vs. final data

Flash data were calculated from 95% of final responses. Since January 2006 the average difference between final and flash Manufacturing PMI values is 0.0 (0.3 in absolute terms).

About PMI

Purchasing Managers' Index® (PMI®) surveys are now available for over 40 countries and also for key regions including the eurozone. They are the most closely watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. ihsmarkit.com/products/pmi.html

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